



Utilities Privatization Observations



***Presented by Stan Knobbe
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Company***

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Agenda

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- **Background**
- **Military Presence**
- **RFPs in Progress**
- **Observations**



Who Are We?

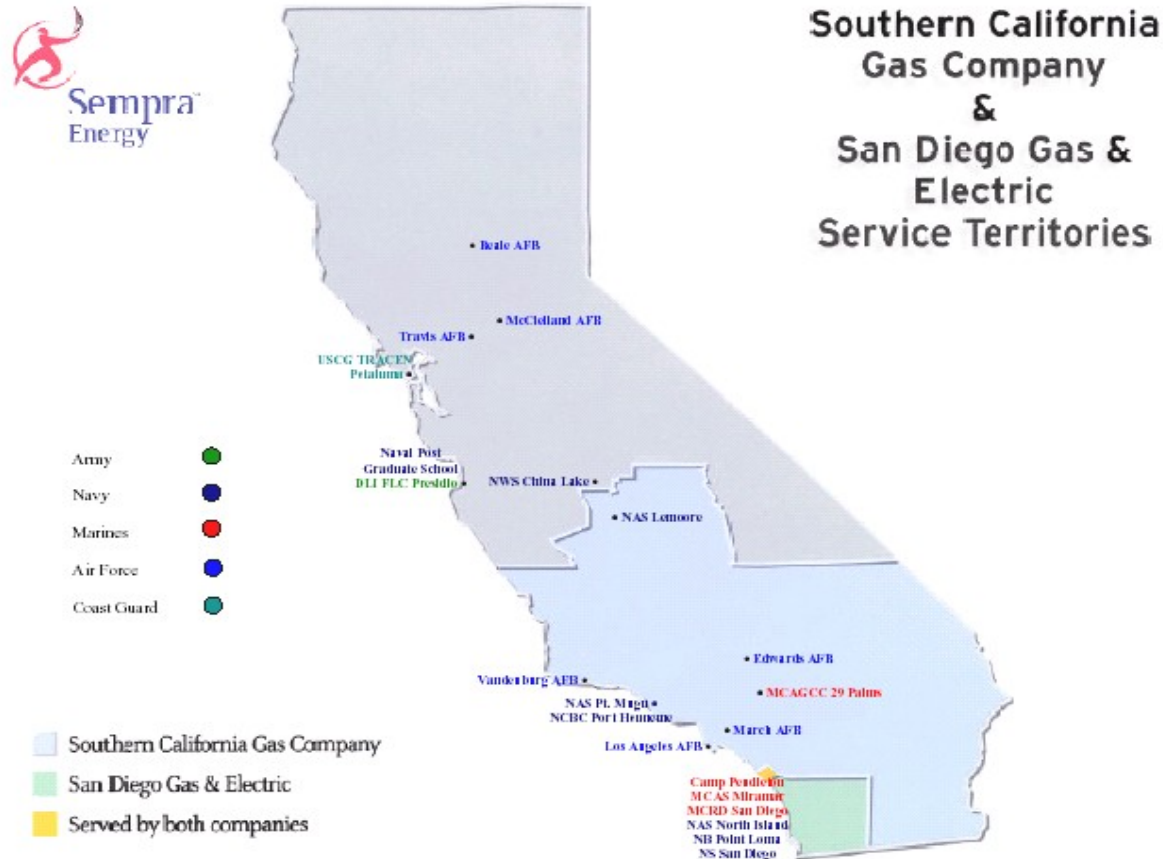
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- **San Diego Gas and Electric, and Southern California Gas Company**
 - Regulated utility subsidiaries of Sempra Energy
 - Over 5 million natural gas customers and 1.3 million electric customers
 - Over two dozen military bases



Military Presence

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Of all regulated utility service territories, Sempra Energy Utilities service area contains the nation's highest concentration of military bases.



RFPs in Progress

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RFP Issued Status

- **MCAGTFTC, 29 Palms** **Negotiations**
- **Navy Base Ventura County** **Uneconomic**
- **Marine Corps Recruit Depot** **Negotiations**
- **Navy Metro (32nd Street, North Island, **Pending**
Point Loma, Imperial Beach,
Miramar, ASW, NOLF, NAV,
SPAWAR, FISC)**
- **Navy Non-Metro (Lemoore, Seal Beach **Negotiations**
El Centro, Fallbrook) on portion**
- **Camp Pendleton** **Pending**
- **Vandenberg AFB** **RFP**
- **Los Angeles Air Force Base** **RFP**
- **March Air Reserve Base** **RFP**
- **Channel Island Air National Guard Base** **Negotiations**



Observations

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- **Based on Our Experience With MCAGTFTC**

- RFP issued in August 2000
- Responded in January 2001
- Identified in “Competitive Range” in July 2001
- Selected best value offered in February 2002
- Negotiations began in May 2002
 - Began due diligence in July 2002
 - Completed due diligence in November 2002
- Negotiations still under way



Observations

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- **Good Progress, but Lengthy Process...**
 - Positive discussions with NAVFAC SW Div negotiating team
 - Mutual understanding state/federal jurisdictions
 - Utility Service Contract text
 - Environmental consideration
 - Davis Bacon
 - Service Act
 - Bill of Sale
 - Transition Plan
 - Small business subcontracting plan
- **We Have Come a Long Way**
 - Considering our starting point



Observations

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- **The Lone Remaining Stumbling Block Today: CAS Exemption...**
 - Pending since mid-2003
 - Unclear / inconsistent direction
 - Unclear on decision makers
 - Air Force template exemption



Observations

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- **What Constitutes “Set by Law or Regulation”?**
 - Federal misconception that Rule 2 SFCB is not 100 percent regulated
 - On the contrary, Rule 2 and everything SoCalGas does is fully regulated



Observations

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- **Under State of California Regulatory Structure...**
 - The California Public Utilities Commission (CPUC) has jurisdictional authority to regulate all utility services provided by SoCalGas
 - The CPUC will be exercising that authority by virtue of its review of the Advice Letter to be filed in connection with the 29 Palms privatization contract
 - Rates to be charged pursuant to Rule 2 (including SFCB) are set by law or regulation under the CPUC's proper authority



Observations

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- **We'd Like to Help Make This Work, and Soon...**
 - We would like to execute an agreement that will be a model
 - We would like a positive resolution to the CAS exemption uncertainty so we can conclude with 29 Palms and proceed with other pending RFPs
 - Without a CAS decision, it is difficult for our senior management to justify committing additional resources to any future projects



Questions?

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